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Report No. D-2010-063

May 21, 2010

Inspector General

United States
Department of Defense



Analysis of Air Force Secondary Power Logistics Solution Contract

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Report Documentation Page				Form Approved OMB No. 0704-0188	
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1. REPORT DATE 21 MAY 2010		2. REPORT TYPE		3. DATES COVERED 00-00-2010 to 00-00-2010	
4. TITLE AND SUBTITLE Analysis of Air Force Secondary Power Logistics Solution Contract				5a. CONTRACT NUMBER	
				5b. GRANT NUMBER	
				5c. PROGRAM ELEMENT NUMBER	
6. AUTHOR(S)				5d. PROJECT NUMBER	
				5e. TASK NUMBER	
				5f. WORK UNIT NUMBER	
7. PERFORMING ORGANIZATION NAME(S) AND ADDRESS(ES) Department of Defense Inspector General, 400 Army Navy Drive, Arlington, VA, 22202-4704				8. PERFORMING ORGANIZATION REPORT NUMBER	
9. SPONSORING/MONITORING AGENCY NAME(S) AND ADDRESS(ES)				10. SPONSOR/MONITOR'S ACRONYM(S)	
				11. SPONSOR/MONITOR'S REPORT NUMBER(S)	
12. DISTRIBUTION/AVAILABILITY STATEMENT Approved for public release; distribution unlimited					
13. SUPPLEMENTARY NOTES					
14. ABSTRACT					
15. SUBJECT TERMS					
16. SECURITY CLASSIFICATION OF:			17. LIMITATION OF ABSTRACT Same as Report (SAR)	18. NUMBER OF PAGES 51	19a. NAME OF RESPONSIBLE PERSON
a. REPORT unclassified	b. ABSTRACT unclassified	c. THIS PAGE unclassified			

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Acronyms and Abbreviations

AFFARS	Air Force Federal Acquisition Regulation Supplement
APU	Auxiliary Power Unit
BCA	Business Case Analysis
BRAC	Base Realignment and Closure
CIP	Component Improvement Program
CONUS	Continental United States
CPFH	Cost-Per-Flight-Hour
CWT	Customer Wait Time
DFARS	Defense Federal Acquisition Regulation Supplement
DLA	Defense Logistics Agency
DLR	Depot-Level Repairable
FAR	Federal Acquisition Regulation
GAO	Government Accountability Office
GCU	Generator Control Unit
NSN	National Stock Number
OCM	On-Condition Maintenance
OCONUS	Outside the Continental United States
OIG	Office of Inspector General
PBL	Performance-Based Logistics
PNM	Price Negotiation Memorandum
PWS	Performance Work Statement
RSP	Readiness Spares Packages
SPE	Senior Procurement Executive
SPLS	Secondary Power Logistics Solution
U.S.C.	United States Code
WFHBI	Weighted Flight Hours Between Installations

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INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
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ARLINGTON, VIRGINIA 22202-4704

May 21, 2010

MEMORANDUM FOR UNDER SECRETARY OF DEFENSE FOR ACQUISITION,
TECHNOLOGY, AND LOGISTICS
COMMANDER, AIR FORCE GLOBAL LOGISTICS
SUPPORT CENTER

SUBJECT: Report on Air Force Secondary Power Logistics Solution Contract
(Report No. D-2010-063)

We are providing this report as a nonaudit service for your review and comment. This analysis discusses issues regarding the use of performance-based logistics support strategies and the management of DOD inventory. We considered management comments on a draft report when preparing the final report.

DOD Directive 7650.3 requires that all recommendations be resolved promptly. Comments from the Principal Deputy Assistant Secretary of Defense for Logistics and Materiel Readiness; the Associate Deputy Assistant Secretary of the Air Force (Contracting); and the Vice Commander, Air Force Global Logistics Support Center were not fully responsive. Therefore, we request additional comments from the Director, Defense Procurement and Acquisition Policy and the Commander, Air Force 748th Supply Chain Group on Recommendations A.2, B.1.b, C.1, C.2, E.1.a, E.2.a, and F.3 by June 21, 2010.

If possible, send a .pdf file containing your comments to audacm@dodig.mil. Copies of your comments must have the actual signature of the authorizing official for your organization. We are unable to accept the /Signed/ symbol in place of the actual signature. If you arrange to send classified comments electronically, you must send them over the SECRET Internet Protocol Router Network (SIPRNET).

We appreciate the courtesies extended to the staff. Please direct questions to me at [REDACTED]

Richard B. Jolliffe
Assistant Inspector General
Acquisition and Contract Management

cc:
Assistant Secretary of the Air Force (Acquisition)
Director, Defense Logistics Agency

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Results in Brief: Analysis of Air Force Secondary Power Logistics Solution Contract

What We Did

Our objective was to evaluate the data used in the business case to support the best value decision to award the Secondary Power Logistics Solution (SPLS) contract. We also evaluated a congressional inquiry on the consolidation of SPLS requirements received during our review.

What We Found

The Air Force did not adequately address Defense Logistics Agency (DLA) consumable item inventory. After we informed the Air Force and DLA, they agreed to drawdown \$51.1 million of inventory for the F-15 secondary power system and are addressing \$19 million of consumables inventory for the C-130 (Issue A).

The Air Force did not comply with legal requirements relating to prime vendor contracts for depot-level maintenance and repair because there is no DOD implementing guidance, and the SPLS contract is not consistent with Base Realignment and Closure (BRAC) recommendations to transfer procurement management and distribution functions to DLA (Issue B).

DOD availability for C-130 and F-15 Depot-level Repairables (DLR) has been unsatisfactory, and the SPLS contract requires significantly improved availability starting in contract year 3. However, the goal of reducing customer wait time was not achieved and contract metrics are not consistent with DOD standards (Issue C). Also, the contract did not obtain significant reliability improvements, and the Air Force continues to fund improvements outside of the contract, which is contrary to the performance-based logistics concept (Issue D).

Savings are difficult to calculate. The Air Force claimed savings of [REDACTED] over the status quo for Increment 1 of the SPLS contract, but our calculations ranged from a savings of \$7.0 million to a price increase of \$13.9 million from FY 2005 to 2007. The SPLS contract relies more on the use

of on-condition maintenance than depot overhaul, which positively impacts costs and availability but may negatively impact reliability. The Air Force expects to obtain similar savings from the Increment 2 (F-15) award. However, we calculated that the SPLS contract could cost [REDACTED] more than the status quo (Issue E).

The Air Force Senior Procurement Executive has not yet determined that the consolidation of requirements for the SPLS contract was necessary and justified (Issue F). Please see Appendix B to the report for more details on each issue.

What We Recommend

- The Air Force use DLA assets for the C-130 and any other spirals/increments.
- Congress be notified of the SPLS strategy and that DOD issue implementing guidance on prime vendor contracts.
- The Air Force periodically obtain certified cost or pricing data and renegotiate prices.
- Closely monitor the on-condition maintenance philosophy to determine its impact on reliability.
- Update status quo calculations to include FY 2009 historical data before determining if SPLS contract is cost-effective.
- The Air Force Senior Procurement Executive determine whether the consolidation of requirements for the SPLS contract was necessary and justified.
- DOD and the Air Force review and clarify or correct policies related to consolidation.

Management Comments and Our Response

Comments generally were responsive, but not all recommendations were resolved. We request additional comments from the Director, Defense Procurement and Acquisition Policy; and Commander, Air Force 748th Supply Chain Management Group, by June 21, 2010. See the recommendations table on the back of this page.

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Recommendations Table

Management	Recommendations Requiring Comment	No Additional Comments Required
Director, Defense Procurement and Acquisition Policy	B.1.b and F.3	
Director, Defense Logistics Agency		B.2.a and B.2.b
Air Force Deputy Assistant Secretary for Contracting		B.1.a and F.2
Assistant Deputy Under Secretary of Defense for Maintenance Policy and Plans		B.1.b
Commander, Air Force 748 th Supply Chain Management Group	A.2, C.1, C.2, E.1.a, and E.2.a	A.1.a, A.1.b, C.3, D.1, D.2, D.3, E.1.b, E.2.b, and F.1
Deputy Commander, Defense Supply Center, Richmond, Virginia		A.1.a, A.1.b, and A.2

Please provide comments by June 21, 2010.

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Introduction

Objectives

Our objective was to evaluate the data used in the business case analysis (BCA) to support the best value decision to award the Secondary Power Logistics Solution (SPLS) contract to Honeywell International Inc. (Honeywell). Specifically, we evaluated the accuracy of the baseline data related to availability, reliability, and cost; determined whether the Air Force adequately considered appropriate statutory and regulatory issues; and assessed the overall impact on the Defense Logistics Agency (DLA) and DOD supply system. During the review, we received a congressional inquiry relating to the consolidation of SPLS requirements. See Appendix A for a discussion of the scope and methodology.

Background

During a Lean Six Sigma project (D2009-D000CH-0002.000) designed to re-establish baseline costs on the DLA/Honeywell long-term contracts and to attain lower prices for Honeywell parts,¹ we discovered that DLA had more than 4 years of inventory (\$139.4 million) in relation to annual requisitions (\$33.9 million). The excess inventory related primarily to consumable items used by Hill Air Force Base (DOD Activity Address Code FB2029).

Demand Decline and DOD Inventory

We visited Hill Air Force Base to assess the reasons for the decrease in demand for DLA-managed consumable items and found that the Air Force had reduced its requisitions for consumable items that were purchased with the SPLS contract. The SPLS contract is a sole-source, performance-based logistics (fixed-price, power-by-the-flight-hour) contract with Honeywell. The auxiliary power units (APUs) for the B-2 and C-130 aircraft and ground carts had already transitioned to the SPLS contract (Spiral 1, Increment 1), and the F-15 secondary power systems (Spiral 1, Increment 2) were scheduled to transition in 2009 (now 2010).

In addition, a significant shortage of bearings caused the Air Force to reduce requisitions of consumable items used on F-15 secondary power systems. One of the reasons DLA was unable to supply bearings to the Air Force was that Honeywell was unable to obtain bearings from its manufacturers and had significantly increased delivery times. For example, DLA had no inventory for National Stock Number (NSN) 3110-00-554-8388, a cylindrical roller bearing, even though 2,766 were on order. Starting with order

¹ The initiative to re-baseline prices on the DLA/Honeywell long-term contracts reduced prices by about \$9.5 million or 9.4 percent (based on 3-year demand of \$100.8 million) and will be addressed in a separate report.

2090 January 20, 2007, to order 4016 August 3, 2007, Honeywell had amended contract delivery days from about 205 days to between 597 and 759 days.

The Air Force had only limited plans to address DLA consumable item inventory and in fact, the DLA/Air Force collaborative forecasting continued to assume DLA would support the APUs.

SPLS Strategy

On August 30, 2007, Hill Air Force Base awarded Increment 1 of the SPLS contract with an estimated value of about \$370 million over 10 years to Honeywell. The SPLS contract provides logistics service and depot maintenance support for Hill Air Force Base and, according to Honeywell, should reduce maintenance costs by 10 percent. During the first increment of the contract, Honeywell will reportedly upgrade APUs and provide ground cart support and supply chain management services for the B-2 and C-130 aircraft.

Subsequent spirals and increments of the SPLS contract will add the F-15 Eagle [REDACTED] C-5 Galaxy and E-3 Sentry [REDACTED] A-10 Thunderbolt [REDACTED] B-1B Lancer [REDACTED] and F-16 Fighting Falcon [REDACTED]. The value of SPLS contracts for all spirals will total about \$1.7 billion. The strategy will also include agreements with other original equipment manufacturers, such as Hamilton Sundstrand.

Additional Benefits Anticipated by the Air Force

Under the SPLS contract, Honeywell has embedded engineering staff on a just-in-time basis for support to increase production, resolve current problems, and reduce cycle time.

Results Summary

The SPLS strategy initially did not fully consider the impact on DLA consumable inventory, did not comply with statutory requirements (bundling² [Section 2382, title 10, United States Code, "Consolidation of Contract Requirements: Policy and Restrictions] and prime vendor contracts for depot-level maintenance and repair [Section 346 of Public Law 105-261, the "Strom Thurmond National Defense Authorization Act for Fiscal Year 1999," October 17, 1998, as amended by Section 336 of Public Law 106-65, October 5, 1999, added as a note to Section 2464, title 10, United States Code]³), and was not consistent with Base Realignment and Closure (BRAC) 2005 recommendations. Our analysis shows that while the contract requirements do provide for better availability, any reliability improvements and lower costs are questionable. The following sections contain details on the issues and our recommendations.

- Issue A – DLA Impact – Sales and Inventory
- Issue B – Statutory Issues
- Issue C – Availability
- Issue D – Reliability Improvements
- Issue E – SPLS Costs
- Issue F – Congressional Inquiry – Bundling

See Appendix B for more details on each issue.

Management Comments on the Report and Our Response

Assistant Secretary of Defense for Logistics and Materiel Readiness Comments

The Principal Deputy Assistant Secretary of Defense for Logistics and Materiel Readiness stated that although he partially agrees with the findings, he is concerned that the general tone of the report appears to discourage, rather than support, current DOD policy of adopting innovative sustainment strategies, particularly PBL.

Our Response

We fully support innovative sustainment strategies that effectively decrease sustainment costs, properly define and measure performance metrics, and show improvements in performance, and lower costs across the total life cycle. However, as shown in the report, we question whether the Air Force SPLS strategy will result in lower costs and achieve reliability improvements. Further, the SPLS contract metrics for availability defines acceptable delivery below current DOD requirements for high-priority requisitions and does not fully measure the total customer wait time (CWT).

² The United States Code and the Federal Acquisition Regulation define bundling as consolidating two or more requirements for supplies or services, previously provided or performed under separate smaller contracts, into a solicitation for a single contract.

³ The draft report referred to this legislation as the Strom Thurmond Act.

Issue A. DLA Impact – Sales and Inventory

The SPLS philosophy moves supply operations and material management functions for consumable items from DLA to the private sector (Honeywell) with DLA becoming the second source of supply for consumable items used on secondary power systems at Hill Air Force Base. While the Air Force had addressed DLA inventory drawdown for a limited number of consumable items used on the aircraft secondary power systems, we identified \$60-\$80 million of consumable items used on the secondary power systems that had not been adequately addressed. After briefing the Air Force and DLA on the inventory issue (we also briefed the Director, Defense Procurement and Acquisition Policy), the Air Force and DLA took a “team deep look” at F-15 consumable item inventory and agreed to:

- use \$51.1 million of DLA assets (as a first source of supply) throughout the life of the contract or until DLA assets are exhausted for 507 drawdown NSNs (95,638 total items) used on the F-15 aircraft at the DLA Standard Unit Price,
- enforce drawdown requirements through contract language with periodic metric reviews, and
- assess whether the same methodology can be used for excess DLA assets relating to the C-130 aircraft already on contract with Honeywell under Increment 1.

Although we believe that contracting out the DLA mission will decrease effective use of DLA assets, increase excess capacity, and make DLA increasingly more inefficient; the Air Force and DLA have agreed on a reasonable drawdown plan for DLA assets. According to DLA, because the use of performance-based logistics (PBLs) is DOD’s preferred method of support, the Deputy Commander, Defense Supply Center Richmond, believes it would be inappropriate for DLA to challenge the Air Force’s decision. DLA stated that it is important to gain information on the Services’ intent so that DLA personnel can adjust their ordering accordingly and avoid investing in unneeded material.

Recommendations, Management Comments, and Our Response

A.1. We recommend that the Commander, Air Force 748th Supply Chain Management Group, and the Deputy Commander, Defense Supply Center Richmond:

- a. Use \$51.1 million of Defense Logistics Agency assets (as first source of supply) through the life of the contract or until Defense Logistics Agency assets are exhausted for drawdown F-15 items at the Defense Logistics Agency Standard Unit Price.
- b. Enforce drawdown requirements through contract language with periodic metric reviews.

Management Actions

The Air Force and DLA agreed and took prompt action to address the inventory issue.

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A.2. We recommend that the Commander, Air Force 748th Supply Chain Management Group, and the Deputy Commander, Defense Supply Center Richmond, follow the same methodology to use about \$35.0 million of Defense Logistics Agency assets for C-130 items and any other Secondary Power Logistics Solution spirals and increments.

Air Force Global Logistics Support Center Comments

The Vice Commander, Air Force Global Logistics Support Center, and the Director, 448th Supply Chain Management Wing, agreed with the intent of the recommendation. They agreed that it is best to use excess DLA inventory related to the C-130. They are currently in discussions with Honeywell and DLA to determine a solution that will drawdown excess DLA inventory, while also considering Honeywell's contractual obligations to its suppliers.

Defense Supply Center Richmond Comments

The Deputy Commander, Defense Supply Center Richmond, agreed. DLA met with the Air Force and identified the parts to be used and is currently negotiating a dollar value. DLA estimates the value of these parts at \$25 million for a 10-year drawdown plan, but because the contract has been in place for 2 years, DLA estimates an 8-year drawdown value of \$19 million. The deputy commander stated that the Air Force is asking DLA to consider foreign military sales as a potential customer for a "couple million dollars" worth of parts. Additionally, according to the deputy commander, the Air Force is concerned that Honeywell has "over procured" for the last 2 years of the contract. The deputy commander also stated that DLA will insist that the Air Force drawdown a significant amount of inventory, if not all, related to Increment 1.

Our Response

The comments are not fully responsive. Although Honeywell's firm commitments may impact the amount of DLA inventory that can be reduced, the Air Force needs to negotiate an effective drawdown of DLA assets. The SPLS contract has 7 remaining 1-year options that can be exercised. Given the contract terms, it seems unlikely that Honeywell has entered into firm agreements with its suppliers for the remaining period. In July 2009, the Deputy Assistant Secretary for Contracting, Office of the Assistant Secretary of the Air Force for Acquisition, stated in a decision brief for the F-15 award that he wanted the C-130 inventory resolved before the F-15 award. Further, with Increment 3 of the SPLS contract adding A-10, B-1, C-5, and E-3 secondary power systems, clearly there is adequate leverage and incentive to negotiate a reasonable drawdown of C-130 inventory for DOD and the taxpayers. We request that the Air Force provide additional comments on the final report that address a reasonable drawdown plan for C-130 inventory.

Issue B.1. Statutory Issues – Prime Vendor Contracts for Depot-Level Maintenance and Repair

Section 2464, title 10, United States Code (10 U.S.C. 2464) note, placed conditions on the expansion of functions performed under prime vendor contracts for depot-level maintenance and repair. The law requires that Congress be notified 30 days before the Secretary of Defense or the Secretary of a Military Department enters into a prime vendor contract for depot-level maintenance and repair of a weapons system or other military equipment.

The Air Force had not complied with 10 U.S.C. 2464 note. The Air Force agreed that the statutory requirements applied to the SPLS strategy and was researching how notification should be made and at what level. The Air Force also stated that there was no Defense Federal Acquisition Regulation Supplement (DFARS) guidance that addressed the requirements.

Recommendations, Management Comments, and Our Response

B.1.a. We recommend that the Air Force Deputy Assistant Secretary for Contracting comply with the requirements for prime vendor contracts and notify Congress of the Secondary Power Logistics Solution strategy.

Air Force Deputy Assistant Secretary for Contracting Comments

The Air Force Deputy Assistant Secretary for Contracting partially agreed. The Associate Deputy Assistant Secretary stated that when the SPLS contract was awarded in August 2007, DOD had not implemented the requirements for prime vendor contracts. The Associate Deputy Assistant Secretary stated that it would not be appropriate to apply the requirements for prime vendor contracts because the Air Force awarded the contract in 2007, and DOD had not implemented the requirements until February 12, 2010. The Air Force did agree that the requirements for prime vendor contracts applies to the SPLS strategy but has no plans to notify Congress.

Our Response

The Air Force comments are not responsive. The Air Force needs to comply with the law to notify Congress before awarding additional increments of the SPLS strategy that contract out depot-level maintenance and repair of the F-15, A-10, B-1, C-5, and E-3 secondary power systems. We plan to address the issue to the Director, Defense Procurement and Acquisition Policy (see our response to B.1.b).

B.1.b. We recommend that the Director, Defense Procurement and Acquisition Policy, in conjunction with the Assistant Deputy Under Secretary of Defense (Maintenance Policy and Programs), develop implementing guidance to address the requirements relating to congressional notification before entering into prime vendor contracts for depot-level maintenance and repair of a weapons system or other military equipment.

Assistant Secretary of Defense for Logistics and Materiel Readiness Comments

The Principal Deputy Assistant Secretary of Defense for Logistics and Materiel Readiness partially agreed. The Principal Deputy commented that he believes there is sufficient implementing guidance to comply with the requirements. Further, on February 12, 2010, the Director, Defense Procurement and Acquisition Policy, issued a policy memorandum to incorporate the requirements into DFARS.

Our Response

The Principal Deputy Assistant Secretary of Defense for Logistics and Materiel Readiness comments are not fully responsive. Although the policy memorandum issued in response to this report is a step in the right direction, we do not agree that sufficient guidance exists. For instance, the Air Force informed us that it does not intend to comply with the requirements when awarding future increments of the SPLS contract. Further, for ongoing projects, the Army also has not complied with the requirements and is questioning the applicability of the guidance to its current support strategies. Therefore, we request additional comments in response to the final report from the Director, Defense Procurement and Acquisition Policy.

Issue B.2. Statutory Issues – Base Realignment and Closure 2005

The SPLS contract is not consistent with the BRAC recommendations that transfer procurement management and related support functions for depot-level repairables (DLRs) and supply, storage, and distribution management functions to DLA because the SPLS contract keeps these functions under Air Force control. In addition; supply, storage, and distribution functions for consumable items previously managed by DLA will be re-aligned to contractor management under Air Force control. Consequently, the SPLS contract and other PBL strategies will impact BRAC savings estimates relating to BRAC Recommendation # 176, "Depot-Level Repairable Procurement Management Consolidation," and BRAC Recommendation # 177, "Supply, Storage, and Distribution Management Reconfiguration."

The SPLS strategy and pursuit of similar PBL strategies by the Services will, over time, diminish the joint opportunities for savings relating to consolidating consumable item and procurement management of DLRs and consolidating the service supply, storage, and distribution functions. DLA has not addressed the impact that the Air Force SPLS PBL strategy will have on BRAC recommendations cost and savings estimates. The SPLS strategy should resolve Air Force concerns about the BRAC consolidation actions impact on readiness and depot functions to serve the warfighter, as reported by the Government Accountability Office (GAO).

Recommendations, Management Comments, and Our Response

B.2. We recommend that the Director, Defense Logistics Agency:

a. Determine the difference in the value of the depot-level repairables that the Services originally planned to transfer (procurement management function) to the Defense Logistics Agency and the current value of the depot-level repairables currently scheduled to transfer and determine the associated impact (Base Realignment and Closure Recommendation #176).

Defense Logistics Agency Comments

Inventory savings identified in BRAC Recommendation 176 were based on placing 2 percent of the annual acquisition dollar value of consumable and depot-level repairable Class IX materiel on long-term, performance-based contracts for a period of 4 consecutive years. Assumed savings come from lowering lead times for those affected NSNs and, in some instances, from achieving an opportunity to receive inventory directly from the vendor. DOD envisioned these contracts to be joint enterprises between DLA and the Services and did not target specific vendors. The Services are not transferring management of depot-level repairables to DLA. BRAC Recommendation 176 directs that procurement of Class IX materiel be assigned to DLA. Subsequently, the governance board decided that repair services and mixed service/materiel contracts were not intended to be assigned to DLA. The annual acquisition dollar value of Class IX

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materiel for the Air Force as reported in the certified BRAC data call is \$1.6 billion. Two percent of that amount adjusted for inflation is \$34.4 million. Annual inventory savings are expected to average \$8.8 million a year or 0.55 percent of Air Force Class IX annual acquisition value. The Honeywell SPLS contract would have very minimal, if any, impact on the BRAC savings estimates.

Our Response

The comments from DLA are responsive.

b. Improve the accuracy of its Base and Realignment Closure cost and savings estimates by identifying the Service-related inventory that will not be consolidated with the Defense Logistics Agency inventory and exclude any projected savings associated with the inventory transfer for inventory not being transferred to Defense Logistics Agency (Base Realignment and Closure Recommendation #177).

Defense Logistics Agency Comments

The inventory savings identified in BRAC Recommendation 177 were based on projected inventory to be capitalized by DLA from the Navy and Air Force. The Air Force has projected \$177.1 million of materiel at Ogden Air Logistics Center to be capitalized by DLA. The BRAC savings estimates conservatively assume a 25-percent reduction in inventory or \$16.5 million. The reduction occurs when inventory levels for DLA worldwide requirements and Ogden Air Logistics Center, Utah, are combined and collapsed. There is no reason to believe that the Honeywell SPLS contract would have a significant effect on the assumptions.

Our Response

The comments from DLA are responsive.

Issue C. Availability – On-Time Delivery of Depot-Level Repairables

Government availability for the C-130 and F-15 DLRs has been unsatisfactory. We calculated that C-130 DLR availability ranged from 39.7 percent in FY 2003 to 68.8 percent in FY 2007, with a spike of 79.8 percent in FY 2006 (SPLS Increment 1 contract standards). From FY 2003 to FY 2008, availability for F-15 DLRs ranged from 43.0 to 45.8 percent (also using SPLS Increment 1 contract standards) with a spike of 54.9 percent in FY 2007. It should be noted that a world-wide shortage of bearings significantly impacted repairs and availability and that the Air Force acquisition plan reported on-time deliveries of spares at only 58 and 56 percent in FYs 2003 and 2004. The SPLS contract Increment 1 requires 90-percent availability starting in year 3 of the contract, and Honeywell achieved availability rates of 60.3 and 75.9 in the first 2 contract years respectively (for the C-130). The Air Force established a 90-percent goal for DLR availability in its business case, but the F-15 contract (Increment 2) has not yet been negotiated.

We found that the Air Force BCA goal to reduce CWT from 4 days to 2 was not achieved and the availability measurements in the SPLS contract were not consistent with DOD Uniform Material Movement and Issue Priority Standards (DOD Standards). We found that for CWT, the SPLS contract clock starts the first business day (Monday-Friday) after receipt of the requisition by Honeywell as opposed to the date the requisition was issued for DOD requirements, and that the contract performance work statement was not consistent with the availability performance requirement. Also, for high-priority requisitions (1-3), DOD generally required faster delivery than SPLS, while for lower priority (4-15) requisitions, SPLS required faster delivery. Finally, the maximum contract penalty for poor performance under Increment 1 (availability at 80 percent or lower) is only \$141,825 or less than half a percent of the annual contract value of \$36.9 million and will provide only limited incentive to guarantee adequate performance.

Recommendations, Management Comments, and Our Response

C. We recommend that the Commander, Air Force 748th Supply Chain Management Group:

1. Establish procedures to measure customer wait time as defined by the total elapsed time between issuance of a customer order and satisfaction of that order.

Air Force Global Logistics Support Center Comments

The Vice Commander, Air Force Global Logistics Support Center, and the Director, 448th Supply Chain Management Wing, agreed. The commander stated that the Air Force will continue to measure customer wait time from the time a requisition is submitted to the time the field activity receives a serviceable asset.

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Our Response

The Air Force comments are not fully responsive. The Air Force had not been measuring customer wait time from the time a requisition was submitted to the time the field activity received a serviceable asset. The Air Force needs to provide a response to the final report detailing how it will measure customer wait time from the time a requisition is submitted to the time the field activity receives a serviceable asset.

2. Establish and track Secondary Power Logistics Solution contract metrics for availability (customer wait time) that are equal to or better than DOD Uniform Material Movement and Issue Priority Standards.

Air Force Global Logistics Support Center Comments

The Vice Commander, Air Force Global Logistics Support Center, and the Director, 448th Supply Chain Management Wing, agreed. The commander stated that the Air Force would review Priority 02 and 03 requisitions to determine whether it is economically justifiable to amend the contract to require delivery within 2 business days for Continental United States requirements or 5 business days for Outside the Continental United States requirements.

Our Response

The Air Force comments are partially responsive. We question the use of contract metrics that are not equal to or better than DOD Uniform Material Movement and Issue Priority Standards. Accordingly, we request that the Air Force provide a response to the final report.

3. Establish contract incentives or penalties that are sufficient to ensure required availability.

Air Force Global Logistics Support Center Comments

The Vice Commander, Air Force Global Logistics Support Center, and the Director, 448th Supply Chain Management Wing, agreed. The commander stated that the contract itself is sufficient incentive for Honeywell to meet contract availability requirements because of the Air Force's ability to not exercise option years if Honeywell does not meet contractual performance requirements. As a result, the potential penalty for not meeting contract performance is the value of the contract.

Our Response

The Air Force comments are responsive.

Issue D. Reliability Improvements

The SPLS Increment 1 contract requires only a 60-percent reliability improvement for 23.3 percent of the APUs (based on the dollar value of the contract) or significantly less than the Air Force business case goal of a 100-percent reliability improvement. Further, based on reliability data from FY 2006 to FY 2008, we calculate that the baseline for the APUs should have been established at 810 Weighted Flight Hours Between Installations (WFHBI) rather than 642 WFHBI. Consequently, the contractual reliability improvements required for Increment 1 amount to only a 26.8 percent improvement for 23.3 percent of the items.

In addition, from 2003 to 2006, the Air Force funded the secondary power system Component Improvement Program (CIP) projects totaling about \$8 million with Honeywell that mostly related to the C-5 control system and the F-15 central gearbox clutch and brake and generator control unit (GCU). From 2007-2009, the Air Force funded an additional \$5.3 million of design improvements with Honeywell, including about \$2.7 million of improvements for the F-15 GCU and more than \$1.9 million of improvements to the C-5 APU 165-1 control system. For the F-15 GCU, the Air Force plans on funding the complete replacement of the GCU at a cost of about \$20 million after the Increment 2 contract is awarded. This concept of funding major component improvements outside the SPLS contract is contrary to the performance-based logistics concept and will be difficult to manage.

Recommendations, Management Comments, and Our Response

D. We recommend that the Commander, Air Force 748th Supply Chain Management Group:

1. Establish accurate reliability baselines from historical data and determine realistic improvements that can be obtained through negotiations with appropriate incentives and penalties.

Air Force Global Logistics Support Center Comments

The Vice Commander, Air Force Global Logistics Support Center, and the Director, 448th Supply Chain Management Wing, agreed that more accurate reliability baselines need to be established. The commander stated that the Air Force performed a revalidation of the data originally used to develop the baseline to include a longer time frame that provides a more accurate picture and highlights some errors in this report. The commander also stated that the cost of changing the contract baseline will be assessed, but the current incentives and penalties are appropriate.

Our Response

The Air Force comments are responsive. However, we are not aware of any errors in our report and we relied on the data provided by the Air Force to make our calculations.

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2. Determine whether it is appropriate to fund component improvement program replacements/upgrades outside a performance-based logistics arrangement and, if appropriate, determine how the Air Force will account for favorable availability, reliability, and cost impact on the Secondary Power Logistics Solution contract.

Air Force Global Logistics Support Center Comments

The Vice Commander, Air Force Global Logistics Support Center, and the Director, 448th Supply Chain Management Wing, agreed. The commander stated that it is reasonable to assume and expect that Honeywell will focus on improvements that will have a payback within the life of the contract and not on those that would extend beyond the life of the contract. When program improvements would extend beyond the life of the contract, the Air Force would determine whether it is in its best interest to pursue these improvements outside the SPLS contract. If the Air Force does choose to pursue these improvements, the Air Force would ensure that Honeywell does not receive a financial benefit for efforts undertaken by the Air Force.

Our Response

The Air Force comments are responsive.

3. Determine whether it is appropriate to fund component improvement program projects (to improve reliability, not safety) that are scheduled for performance-based logistics arrangements.

Air Force Global Logistics Support Center Comments

The Vice Commander, Air Force Global Logistics Support Center, and the Director, 448th Supply Chain Management Wing, agreed. The commander stated that Honeywell is incentivized to make improvements that would lower its costs. The Air Force does not expect Honeywell to implement improvements that will not lower its costs. For improvements that would not lower Honeywell's cost, the Air Force would determine if the improvements are in its best interest and then decide whether to pursue them. Additionally, the Air Force would ensure that Honeywell does not benefit financially from Air Force-funded improvements.

Our Response

The Air Force comments are responsive.

Issue E.1. SPLS Costs – SPLS Increment 1 Cost Savings

Determining whether the Air Force SPLS initiative is less expensive than the status quo is difficult, as is determining whether negotiated prices for the next 10 years are fair and reasonable. In the Increment 1 (B-2, C-130, and carts) final price negotiation memorandum (PNM), the Air Force calculated the SPLS savings from the status quo [REDACTED]

[REDACTED] The SPLS contract is a fixed-price, cost-per-flight-hour (CPFH) contract with a base year and 9 (1-year) options. [REDACTED]

Excluding CIP costs and using the same high-level data for FYs 2005, 2006, and 2007; we calculated the 10-year status quo costs at \$376.1 million, \$355.8 million, and \$355.1 million, respectively. When compared to the \$369.0 million contract price, our calculations range from a cost savings of \$7 million (FY 2005) to a price increase (SPLS contract more expensive) of \$13.9 million (FY 2007).

Further, the [REDACTED] a change-in-repair method at the depot from 100-percent overhaul to an overhaul/on-condition maintenance (OCM) mix starting with 100-percent overhaul and gradually increasing OCM (not complete overhaul). This change-in-repair method resulted in a corresponding change from the baseline contract price for depot work [REDACTED] or a \$58.2 million decrease (34.5 percent). The status quo calculations included 100 percent overhaul. Also, we were unable to determine whether the OCM would impact availability or reliability. In theory, the OCM philosophy could have a positive impact on availability (decreased cycle times) because less costly repairs take less time but not performing complete overhauls could also negatively impact reliability (on-wing performance) so this new repair philosophy will need to be closely monitored. Due to the uncertainty of the status quo calculations and the change in maintenance philosophy, we believe awarding a contract that exceeds 5 years is high risk unless the Air Force develops a plan to re-evaluate future contract costs using certified cost and pricing data.

Recommendations, Management Comments, and Our Response

E.1. We recommend that the Commander, Air Force 748th Supply Chain Management Group:

a. Periodically (about every 4-6 years) obtain certified cost or pricing data and renegotiate option year prices for the Secondary Power Logistics Solution contract.

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Air Force Global Logistics Support Center Comments

The Vice Commander, Air Force Global Logistics Support Center, and the Director, 448th Supply Chain Management Wing, agreed. The commander stated that these actions will be incorporated into future contracts. The commander further stated that the SPLS contract does not have a reopener clause that would allow for such a negotiation, but the Air Force is developing a mechanism to determine price reasonableness prior to the exercise of the next option year. If the Air Force determines that the cost of the contract is not fair and reasonable, it has the ability to not exercise the option year.

Our Response

The Air Force comments are not responsive. The comments discuss mostly future contracts and not SPLS. In July 2009, the Deputy Assistant Secretary for Contracting, Office of the Assistant Secretary of the Air Force for Acquisition stated in a decision brief for the F-15 award that the SPLS contract has 9 option years during which the contracting officer must determine whether the price for each option is fair and reasonable based on current conditions as the Federal Acquisition Regulation (FAR) requires. He also stated that the Air Force should consider changing the terms before the F-15 portion is added to the contract to allow for re-pricing. As stated previously, the addition of Increments 2 and 3 allows adequate leverage and incentive to negotiate the inclusion of this clause. Without the clause, DOD has no chance to recover savings that Honeywell obtains from cost improvements and significant cost reductions due to the change in the maintenance philosophy to "on condition maintenance" on the 10-year firm-fixed-price contract. We request that the Air Force provide a response to the final report.

b. Closely monitor reliability (on-wing performance) of secondary power systems depot-level repairables to determine whether the less costly on-condition maintenance philosophy is negatively impacting reliability.

Air Force Global Logistics Support Center Comments

The Vice Commander, Air Force Global Logistics Support Center, and the Director, 448th Supply Chain Management Wing, agreed. The commander stated that the Air Force is currently collecting and evaluating data to determine the impact that on-condition maintenance had on reliability.

Our Response

The Air Force comments are responsive.

Issue E.2. SPLS Costs – SPLS Increment 2 Calculated Cost Savings

Similar to the Increment 1 analysis, determining status quo costs and potential savings from the sole-source Increment 2 PBL contract for logistics services and depot maintenance support of F-15 secondary power systems is difficult. The Air Force calculated as a baseline for negotiations that the SPLS Increment 2 contract will save the same amount as the Increment 1 contract, [REDACTED] from the [REDACTED] status quo calculation, and the 10-year Increment 2 contract would cost [REDACTED]. The Air Force included [REDACTED] for “Backorder Buydown” to fill all backorders. The Air Force then added [REDACTED] associated with the DLA cost recovery rate for the inventory buydown for a total Increment 2 contract cost of [REDACTED] or a savings [REDACTED].

However, the Air Force status quo calculation was based on an average CPFH for FYs 2006-2008 with additional adjustments for cost increases associated with FY 2008. FY 2008 was the first year that significant F-15 workload transferred from contract support to depot support. We believe it’s difficult to make the assumption that costs are trending up based on the FY 2008 data. For the C-130, costs increased significantly the first year work was transferred to the depot but then steadily decreased over the next 3 years. Consequently, we prepared status quo calculations for FYs 2006, 2007, 2008, and also one for the first 3 quarters of FY 2009 that shows the status quo between [REDACTED] less than the Air Force PBL contract calculation [REDACTED]. We also included the Air Force backorder buydown [REDACTED] in our calculations.

Recommendations, Management Comments, and Our Response

E.2. We recommend that the Commander, Air Force 748th Supply Chain Management Group:

a. Update the status quo calculations for F-15 secondary power systems using FY 2009 historical data to determine whether the Secondary Power Logistics Solution contract is more cost-effective than the status quo.

Air Force Global Logistics Support Center Comments

The Vice Commander, Air Force Global Logistics Support Center, and the Director, 448th Supply Chain Management Wing, agreed. The commander stated that the BCA is being reworked under the supervision of the Ogden Air Logistics Center Financial Management, and the results will be used in the decision on contract Increment 2.

Our Response

The Air Force comments are partially responsive; however, we cannot tell if 2009 data will be part of the update to the BCA. We request that the Air Force provide a response to the final report.

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b. Ensure that the “backorder buydown” used in the status quo calculation is not greater than the specific contract requirement.

Air Force Global Logistics Support Center Comments

The Vice Commander, Air Force Global Logistics Support Center, and the Director, 448th Supply Chain Management Wing, agreed. The commander stated that the BCA status quo costs will be recalculated to match the backorder buydown requirements in the contract after contract award.

Our Response

The Air Force comments are responsive.

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Issue F. Congressional Inquiry - Bundling

On July 20, 2009, during our project, the DOD Inspector General received a congressional inquiry that alleged inappropriate contracting practices relating to bundling requirements under the SPLS contract. The inquiry raised concerns on the impact to small businesses. As a result, we expanded our analysis to include a review of bundling. We plan to respond separately to the inquiry.

As part of its acquisition strategy, the Air Force performed market research to address the impact on small businesses from bundling the requirements under the SPLS contract. The Air Force market research concluded that there would be minimal impact on the small business community as almost all items were sole-source to Honeywell. The Air Force also concluded that there were measurably substantial benefits to bundling the requirements to include monetary savings, increased performance and reliability of APU's, improved quality, and increased depot capabilities. However, the extent of the measurably substantial benefits that the Air Force was able to achieve on the contract is significantly less than planned.

In addition, the Air Force Senior Procurement Executive (SPE) has not yet determined that the consolidation of requirements was necessary and justified as required by the United States Code and regulations. This occurred because Air Force policy is not consistent with the established guidance and permits the delegation of this determination to the Deputy or Associate Deputy Assistant Secretary (Contracting).

We found that the bundling guidance in the acquisition regulations is not consistent with the legislation regarding the definition of substantial bundling. Specifically, the legislation requires the head of the contracting agency to determine if substantial bundling exists, but the criteria set forth in the regulations for substantial bundling is based on the dollar values of consolidated actions.

Recommendations, Management Comments, and Our Response

F.1. We recommend that the Commander, Air Force 748th Supply Chain Management Group, obtain a determination from the Air Force Senior Procurement Executive on whether bundling is necessary and justified for the Secondary Power Logistics Solution contract.

Air Force Global Logistics Support Center Comments

The Vice Commander, Air Force Global Logistics Support Center, and the Director, 448th Supply Chain Management Wing, agreed that proper determination for bundling must be obtained, but disagreed with the level of determination recommended. The commander stated that it is the contracting officer's responsibility to justify bundling, according to FAR 7.107(f). The contracting officer justified bundling on April 18, 2006, and the Deputy Assistant Secretary for Contracting determined that consolidation was necessary and justified on May 15, 2006, in accordance with Air Force Federal

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Acquisition Regulation Supplement (AFFARS) 5307.170-3. The commander further stated that the AFFARS conflicts with other guidance, but the contracting officer followed the proper procedure at the time of the justification.

Our Response

The Air Force comments are not fully responsive. The guidance regarding this issue is clear that the SPE needs to determine whether bundling is necessary and justified. However, we address this issue further in our response to Recommendation F.3, requesting clarification on guidance relating to bundling.

F.2. We recommend that the Air Force Deputy Assistant Secretary for Contracting remove the delegation of authority for the consolidation determination from Air Force Federal Acquisition Regulation Supplement 5307.130 to be consistent with guidance established in the United States Code and acquisition regulations.

Air Force Deputy Assistant Secretary for Contracting Comments

The Air Force Deputy Assistant Secretary for Contracting agreed with the intent of the recommendation. The Associate Deputy Assistant Secretary for Contracting stated that delegations of authority must be consistent with the United States Code and procurement regulations. Further, the Air Force acted within its authority to delegate consolidation approvals below the level of the SPE and have received concurrences from the Secretary of the Air Force General Counsel Office, Defense Acquisition Regulations Council, and Defense Procurement and Acquisition Policy.

Our Response

The Air Force comments are not fully responsive. However, we address this issue again in our response to Recommendation F.3, requesting clarification on guidance relating to bundling.

F.3. We recommend that the Director, Defense Procurement and Acquisition Policy, clarify the guidance in the acquisition regulations related to the definition of substantial bundling and consolidation thresholds.

Assistant Secretary of Defense for Logistics and Materiel Readiness Comments

The Principal Deputy Assistant Secretary of Defense for Logistics and Materiel Readiness partially agreed. The Principal Deputy stated that he would clarify guidance as it relates to the definition of substantial bundling and consolidation (but not consolidation thresholds) in the acquisition regulations.

Our Response

The Principal Deputy Assistant Secretary of Defense for Logistics and Materiel Readiness comments are not fully responsive. The current guidance in the FAR and DFARS is not clear as it relates to consolidation thresholds and responsibility for bundling determinations. The consolidation thresholds in the acquisition regulations

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differ from thresholds established in other guidance. In order to ensure contracting professionals accurately implement policy relating to consolidation, the Director, Defense Procurement and Acquisition Policy needs to review and resolve inconsistencies in current guidance. Therefore, we request additional comments on the final report from the Director, Defense Procurement and Acquisition Policy.

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Appendix A. Scope and Methodology

We conducted this project from March 2009 through May 2010. We performed the review as a nonaudit service to evaluate the data used to support the decision to transfer from traditional in-house support to contractor support. Therefore, the work performed does not constitute an audit under generally accepted government auditing standards. Our review focused on documenting the accuracy of baseline data used to support the decision to move to contractor support.

During the course of the project, we met with the Deputy Assistant Secretary of the Air Force for Contracting; the Executive Director, Air Force Global Logistics Support Center; the Commander, 748th Supply Chain Management Group, Hill Air Force Base; the Director, Secondary Power Commodity Council; the Squadron Chief, Secondary Power Systems, Hill Air Force Base; personnel from the Ogden Air Logistics Center, Financial Management Directorate; and F-15 Engineers. We met with the following representatives from the Under Secretary of Defense for Acquisition, Technology, and Logistics: the Director and staff from the Defense Procurement and Acquisition Policy; the Principal Assistant Deputy Under Secretary of Defense for Logistics and Material Readiness; and staff from the Office of the Assistant Deputy Under Secretary of Defense for Maintenance Policy and Programs. We also met with staff from DLA Headquarters; the Deputy Commander and staff from the Defense Supply Center Richmond, Virginia; and the Commander, DLA, Ogden, Utah.

We reviewed data and documentation from FY 2002 through 2009, focusing on costs of contracts, availability of parts, improvements in reliability, the impact of the strategy on DOD inventory, and compliance with statutory and regulatory guidance. We reviewed the Secondary Commodity Council's Commodity Acquisition Management Plan, Commodity Management Plan, and Acquisition Summary for the SPLS strategy.

We reviewed Spiral 1, Increment 1 of the SPLS contract awarded to Honeywell on August 30, 2007. We reviewed pre award documentation to include BCAs, PNM, performance work statement, and historical costs from FY 2002 through 2007 for the B-2, ground carts, and C-130 secondary power systems. We also reviewed component improvement program funding for these systems.

We also considered the impact on parts availability and reliability that will be caused by the change-in-repair method from 100 percent depot overhaul to more on-condition maintenance. We also reviewed the historical cost information for the Air Force business case for Spiral 1, Increment 2 (F-15). We obtained and reviewed historical costs and actual flight hours flown for the F-15 secondary power systems for the first 3 quarters of FY 2009. We also reviewed component improvement program funding for the F-15.

We reviewed and compared the Air Force and DOD shipment timeliness standards to the SPLS contract requirements. We obtained requisition numbers for DLRs from the Defense Operations Research and Resource Analysis Office. Using the requisition number, we then obtained the order and receipt dates from the Air Force Materiel

Command Tracker Database to determine how much time elapsed before each requisition was satisfied.

We reviewed DLR requisitions from FY 2003 through 2007 for 1,649 C-130 and ground cart requisitions from top users (Kuwait, Qatar, Little Rock, Luke, Eglin, Seymour Johnson, and Mountain Home Air Force Bases) and 6,267 F-15 requisitions from FY 2003 through 2008 for top users (Seymour Johnson, Mountain Home, Eglin, and United Kingdom Air Force bases). We then determined if the delivery times met DOD or SPLS contract standards. We also reviewed performance penalties for failing to meet availability requirements in the SPLS contract.

We reviewed the reliability improvement goals and Air Force data on actual reliability from FY 2003 through 2008. We calculated the weighted flight hours between installations from the data and compared it to the contract baseline awarded under the SPLS Increment 1. We also reviewed penalties for not meeting reliability requirements. We also reviewed contracts F45630-03-C-0043 and FAB8208-07-D-0002 awarded to Honeywell to determine the amount funded by the Air Force for secondary power system component improvements program, and held discussions with engineers to determine whether the Air Force would continue funding component improvements outside of the performance-based logistics contract.

Using data obtained from the Defense Operations Research and Resource Analysis Office for C-130 and F-15 consumable items, we reviewed DLA inventory levels from December 2008, annual demands from FY 2005 through 2008, and primary users for the items to determine the impact to DLA revenue and if DLA inventory could be used to satisfy SPLS demands. We reviewed the memorandum of agreement relating to the drawdown of DLA assets for the F-15 secondary power systems.

We reviewed whether the Air Force complied with Section 346 of Public Law 105-261, the "Strom Thurmond National Defense Authorization Act for Fiscal Year 1999," October 17, 1998, as amended by Section 336 of Public Law 106-65, October 1999, and whether the SPLS contract was consistent with BRAC 2005 Recommendations 176 and 177 that transferred procurement and management of DLRs and distribution and storage functions from the Air Force to DLA.

We also reviewed guidance on contract bundling and Air Force compliance with the guidance to address a congressional inquiry forwarded to our office on July 20, 2009, that claimed the SPLS contract was preventing competition on maintenance, repair, and overhaul services. Specifically, we reviewed whether the Air Force performed market research, considered alternatives with less bundling, and made a determination that bundling was necessary and justified at the appropriate level. We also reviewed additional benefits anticipated by the Air Force.

Assistant Secretary of Defense for Logistics and Materiel Readiness Comments



LOGISTICS AND
MATERIEL READINESS

OFFICE OF THE ASSISTANT SECRETARY OF DEFENSE
3500 DEFENSE PENTAGON
WASHINGTON, DC 20301-3500

MAR 19 2010

MEMORANDUM FOR DEPARTMENT OF DEFENSE INSPECTOR GENERAL
ATTN: ASSISTANT INSPECTOR GENERAL FOR
ACQUISITION AND CONTRACT MANAGEMENT

THROUGH: DIRECTOR, ACQUISITION RESOURCES AND ANALYSIS *YB 3/22/10*

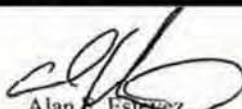
SUBJECT: Response to DoDIG Analysis of Secondary Power Logistics Solution
Contract (Project No. D2009-D000CH-0223.000)

As requested, we are providing responses to the general content and
recommendations contained in the subject analysis.

We partially concur with the recommendations directed specifically to us at B.1.b
and F.3. Detailed comments are attached.

While we partially concur with the findings directed to AT&L, we are concerned
that the general tone of the report appears to discourage, rather than support, current DoD
policy regarding adoption of innovative sustainment strategies, particularly Performance
Based Logistics. We will consider the recommendations in our ongoing efforts to refine
the implementation and effectiveness of outcome-based product support strategies.

For further information, my point of contact for this effort is [REDACTED]
ADUSD(MR), at [REDACTED]


Alan F. Estevez
Principal Deputy

Attachment:
As stated

cc: DPAP

**Response to DoDIG Draft Nonaudit Service Report on Analysis of Secondary Power
Logistics Solution Contract (Project No. D2009-D000CH-0223.000)**

Recommendation B 1.b: We recommend that the Director, Defense Procurement and Acquisition Policy (DPAP), in conjunction with the Assistant Secretary of Defense (Maintenance Policy and Programs), develop implementing guidance to address the requirements of the Strom Thurmond Act relating to congressional notification before entering into prime vendor contracts for depot-level maintenance and repair of a weapons system or other military equipment.

Response: Partially concur. We believe there is sufficient implementing guidance to comply with the Act's reporting requirements. Moreover, DPAP issued memo guidance as of February 12, 2010, with the intention to implement the requirements of the Act in DFARS.

Recommendation F.3: We recommend that the Director, Defense Procurement and Acquisition Policy (DPAP) clarify the guidance in the acquisition regulations related to the definition of substantial bundling and consolidation thresholds.

Response: Partially concur. DPAP concurs with the DoD IG recommendation to clarify the definitions for substantial bundling and consolidation (but not consolidation thresholds) in the acquisition regulations. DPAP will initiate a FAR and a DFARS case to address the definitions.

ATTACHMENT

Air Force Deputy Assistant Secretary for Contracting Comments



DEPARTMENT OF THE AIR FORCE
WASHINGTON, DC

OFFICE OF THE ASSISTANT SECRETARY

FEB 23 2010

MEMORANDUM FOR DEPARTMENT OF DEFENSE INSPECTOR GENERAL
ATTN: DEPUTY INSPECTOR GENERAL FOR AUDITING

FROM: SAF/AQC

SUBJECT: Analysis of Air Force Secondary Power Logistics Solution Contract,
Project No. D2009-D000CH-0223,000, dated January 15, 2010

This is in reply to your memorandum requesting that the Deputy Assistant Secretary of the Air Force (Contracting) provide comments on the subject draft report, January 15, 2010. This memorandum does not address recommendations that are the responsibility of the Director, Defense Procurement and Acquisition Policy; Director, Defense Logistics Agency; Assistant Deputy Under Secretary of Defense for Maintenance Policy and Plans; Commander, Air Force 748th Supply Chain Management Group; and Deputy Commander, Defense Supply Center, Richmond, VA. The DoDIG assigned Recommendations B.1.a. and F.2 to the Deputy Assistant Secretary of the Air Force (Contracting). The responses for these two recommendations are found below:

DoDIG Recommendation B.1.a.: We recommend that the Air Force Deputy Assistant Secretary for Contracting comply with the requirements of the Strom Thurmond Act and notify Congress of the Secondary Power Logistics Solution strategy.

Management Actions: The Air Force agreed that the Strom Thurmond Act applied to the SPLS strategy but had not yet notified Congress.

Air Force Response: Partially Concur.

At the time of SPLS contract award (August of 2007) DoD had not implemented the requirements of the Strom Thurmond Act as noted by the DoDIG in its recommendation B.1.b of this audit to DPAP. DoD now has made its implementation of the Strom Thurmond Act effective on 12 February 2010 when DPAP issued a Class Deviation Reporting Requirement for Prime Vendor Contracts, prohibiting contracting officers from awarding prime vendor contracts for depot-level maintenance and repair of weapon systems or other military equipment until they are notified that the Secretary of Defense or the Secretary of a Military Department has submitted 30 days prior to the award of the proposed contract, the report to Congress required by section 346 of Pub.L. 105-261 as amended (10U.S.C. 2464 note). It would be inappropriate for the Air Force to apply the requirements of this Act to an award made in 2007 when DoD has established 12 February 2010 as the effective date of its implementation of the Act.

Of course, in accordance with the DPAP deviation (attached), the Air Force will comply with the notification requirements before award of any prime vendor contract for depot-level maintenance and repair of weapons system or other military equipment.

DoDIG Recommendation F.2: We recommend that the Air Force Deputy Assistant Secretary for Contracting remove the delegation of authority for the consolidation determination from Air Force Federal Acquisition Regulation Supplement (AFFARS) 5307.130 to be consistent with guidance established in the United States Code and acquisition regulations.

Air Force Response: Concur with intent.

Delegations of authority must be consistent with the guidance in the United States Code and procurement regulations. In the case of the consolidation analysis, the delegation at AFFARS 5307.170 is allowed by the statute and regulations. The AF as well as the other Services, have acted within their authority to delegate consolidation determination approvals below the level of the SPE in accordance with FAR 1.108(b). We have reviewed this matter with the Secretary of the Air Force General Counsel Office, DAR Council and DPAP Policy and they have concurred with our position.

In the National Defense Authorization Act for Fiscal Year 2004, Congress supplemented the provisions on bundling for DoD by requiring a specific documentation and approval process for acquisition that consolidate two or more requirements into a single solicitation or contract with a total value exceeding \$5 million. In fact, the Federal Register Notice issued September 17, 2004 (Volume 69, Number 180), [Rules and Regulations], [Page 55986-55987], DFARS Case 2003-D109 (Interim Rule) specifically states that "DoD considers the restrictions on consolidation of contract requirements to be separate and distinct from the restrictions on contract bundling specified in the Federal Acquisition Regulation."

With respect to Bundling, FAR 7.107(c), Additional Requirements for Acquisitions Involving Bundling, specifically states: "Without power of delegation, the service acquisition executive for the military departments, the Under Secretary of Defense for Acquisition, Technology and Logistics for the defense agencies, or the Deputy Secretary or equivalent for the civilian agencies may determine that bundling is necessary and justified when— ...". The Air Force (AF) has not redelegated this authority. However, 10 U.S.C. 2382 (Public Law 108-136, Section 801), Consolidation of Contract Requirements, implemented in DFARS 207.107-3(a) does not include any restriction on delegation.

FAR 1.108(b), Delegation of authority, states "Each authority is delegable unless specifically stated otherwise." The AF has acted within this authority to delegate consolidation determination approvals below the level of the AF Senior Procurement Executive (SPE). Further, the Navy, Army, and the Defense Information Systems

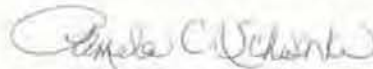
Agency have delegated the authority to approve consolidation determination in their respective agency regulations.

The DoD Office of Small Business Programs issued a Benefit Analysis Guidebook, *A Reference to Assist the Department of Defense Acquisition Strategy Teams in Performing a Benefit Analysis before Consolidating or Bundling Contract Requirements*, dated October 2007. (This Benefit Analysis Guidebook is an update to a previously issued guide by the DoD Office of Small Business Programs.)

Chapter 2, The View from 10,000 Feet, page 2-3, under Determination states: "If the acquisition strategy team has performed its benefit analysis because the strategy consolidates requirements, then the Senior Procurement Executive (SPE) (Note 2) --- after reviewing the market research, benefit analysis, and any other relevant documentation --- makes a determination...." Note 2 states: "SPE is defined at FAR 2.101 and DFARS 202.101. In accordance with FAR 1.108(b), the authority to make this determination is delegable since the Defense Federal Acquisition Regulation Supplement (DFARS) does not state otherwise."

Chapter 5, Determinations, Notifications, Documentation, and Reviews, page 5-1, under Determining Whether to Proceed, states that "Determination by the SPE that a consolidation is necessary and justified (note 1)." Note 1 references "DFARS 207.170-3(a). Also, see agency regulations for delegation authority."

My point of contact for this matter is [REDACTED] SAF/AQCP, commercial [REDACTED]
[REDACTED]



PAMELA C. SCHWENKE
Associate Deputy Assistant
Secretary (Contracting)
Assistant Secretary (Acquisition)

Attachment:
DPAP Memo 2010-00002 dtd 12 Feb 2010



OFFICE OF THE UNDER SECRETARY OF DEFENSE
3000 DEFENSE PENTAGON
WASHINGTON, DC 20301-2000

FEB 12 2011

In reply refer to
DARS Tracking Number: 2010-O0002

MEMORANDUM FOR COMMANDER, UNITED STATES SPECIAL OPERATIONS
COMMAND (ATTN: ACQUISITION EXECUTIVE)
COMMANDER, UNITED STATES TRANSPORTATION
COMMAND (ATTN: ACQUISITION EXECUTIVE)
DEPUTY ASSISTANT SECRETARY OF THE ARMY
(PROCUREMENT), DASA(P)
DEPUTY ASSISTANT SECRETARY OF THE NAVY
(ACQUISITION & LOGISTICS MANAGEMENT),
DASN (A&LM)
DEPUTY ASSISTANT SECRETARY OF THE AIR FORCE
(CONTRACTING), SAF/AQC
DIRECTORS, DEFENSE AGENCIES
DIRECTORS, DOD FIELD ACTIVITIES

SUBJECT: Class Deviation Reporting Requirement for Prime Vendor Contracts

Effective immediately, contracting officers are prohibited from awarding prime vendor contracts for depot-level maintenance and repair of a weapon system or other military equipment until they are notified that the Secretary of Defense or the Secretary of a Military Department has submitted, 30 days prior to the award of the proposed contract, the report to Congress required by section 346 of Pub. L. 105-261, as amended (10 U.S.C. 2464 note). This report contains information on—

- (1) Competitive procedures to be used;
- (2) Cost/benefit analysis demonstrating savings over the life of the contract;
- (3) Analysis of conformance with 10 U.S.C. 2466; and
- (4) A description of measures taken to ensure 10 U.S.C. 2464 is not violated.

This deviation remains in effect until implemented in the DFARS, or otherwise rescinded. My point of contact is [REDACTED] or via email [REDACTED]


Shay Assad
Director, Defense Procurement
and Acquisition Policy

Atch

Air Force Global Logistics Support Center Comments



**DEPARTMENT OF THE AIR FORCE
AIR FORCE MATERIEL COMMAND
AIR FORCE GLOBAL LOGISTICS SUPPORT CENTER**


MEMORANDUM FOR Department of Defense
Office of Inspector General
400 Army Navy Drive
Arlington, VA 22202

FEB 17 2010

FROM: AFGLSC/CV
102 West Losey Street
Scott AFB IL 62225

SUBJECT: Audit, Analysis of Air Force Secondary Power Logistics Solution Contract, 748th
Supply Chain Management Group, Hill Air Force Base, UT (Project D2009-
D000CH-0223.000)

1. Attached are Management Comments to Non-Audit Service of the Secondary Power Logistics Solution Contract report of audit. This documents action taken on Recommendations A.2., C.1., C.2., C.3., D.1., D.2., D.3., E.1.a., E.1.b., E.2.a., E.2.b., and F.1.
2. Questions concerning this action should be addressed to [REDACTED]
748 SCMG/OMO, [REDACTED]


JEFFREY R. SICK
Colonel, USAF
Vice Commander

Attachment:
Management Comments



**DEPARTMENT OF THE AIR FORCE
448TH SUPPLY CHAIN MANAGEMENT WING (AFMC)
TINKER AIR FORCE BASE OKLAHOMA**


12 Feb 10

MEMORANDUM FOR Department of Defense
Office of Inspector General
400 Army Navy Drive
Arlington, VA 22202

FROM: 448 SCMW/DV

SUBJECT: Audit, Analysis of Air Force Secondary Power Logistics Solution Contract, 748th
Supply Chain Management Group, Hill Air Force Base, UT (Project D2009-
D000CH-0223.000)

1. Attached are Management Comments to Non-Audit Service of the Secondary Power Logistics Solution Contract report of audit. This documents action taken on Recommendations A.2., C.1., C.2., C.3., D.1., D.2., D.3., E.1.a., E.1.b., E.2.a., E.2.b., and F.1.
2. Questions concerning this action should be addressed to [REDACTED]
748 SCMG/OMO, [REDACTED]


JOSEPH M. PINCKNEY, JR., Col, USAF
Vice Director
448th Supply Chain Management Wing

Attachment:
Management Comments

Report of Audit, Analysis of Air Force Secondary Power Logistics Solution Contract, 748th Supply Chain Management Group, Hill AFB UT (D2009-D000CH-0223.000)

Recommendation A.2.

The Director, 448th Supply Chain Management Wing, should direct the Commander, 748th Supply Chain Management Group, to follow the same methodology to use about \$35.0 million of Defense Logistics Agency assets for C-130 items and any other Secondary Power Logistics Solution (SPLS) spirals and increments.

Management Comments: The Director, 448th Supply Chain Management Wing, and the 748th Supply Chain Management Group Commander concur with intent. We agree that it is in the best interest to attempt and utilize to the maximum extent practicable, the excess inventory held by DLA in relation to the C-130 and SPLS increment 1. Increment 1 is already awarded, and Honeywell has previously entered into long-term sourcing arrangements with its vendors for the supply of parts. Discussions with Honeywell and DLA are ongoing in regards to this issue. We are attempting to determine a "best fit" solution that will allow for drawdown of DLA inventory, and ensure Honeywell is able to meet its contractual obligations with its vendors.

Estimated Completion Date: 30 Jun 10.

PQC: [REDACTED]

Report of Audit, Analysis of Air Force Secondary Power Logistics Solution Contract, 748th Supply Chain Management Group, Hill AFB UT (D2009-D000CH-0223.000)

Recommendation C.1.

The Director, 448th Supply Chain Management Wing, should direct the Commander, 748th Supply Chain Management Group, to establish procedures to measure customer wait time as defined by the total elapsed time between issuance of a customer order and satisfaction of that order.

Management Comments: The Director, 448th Supply Chain Management Wing, and the 748th Supply Chain Management Group Commander concur with this recommendation. Customer wait time has and will continue to be measured from the time a field activity submits a requisition to the time they receive a serviceable asset. Under SPLS, Honeywell is required to meet the SPLS standard whether or not a serviceable asset is readily available in warehouse storage. Under UMMIPS, DLA is only required to meet the DoD standard if an asset is readily available in warehouse storage. This metric is reviewed at quarterly PMRs, and the report maintained on eProjects for government oversight.

Action Completed: Closed.

POC: [REDACTED]

Report of Audit, Analysis of Air Force Secondary Power Logistics Solution Contract, 748th Supply Chain Management Group, Hill AFB UT (D2009-D000CH-0223.000)

Recommendation C.2.

The Director, 448th Supply Chain Management Wing, should direct the Commander, 748th Supply Chain Management Group, to establish and track Secondary Power Logistics Solution contract metrics for availability (customer wait time) that are equal to or better than DoD Uniform Material Movement and Issue Priority Standards.

Management Comments: The Director, 448th Supply Chain Management Wing, and the 748th Supply Chain Management Group Commander concur with the audit recommendation. We will review the shipment of Priority 02 and 03 requisitions to determine if it is economically justifiable to amend the contract so that these requisitions are also required to be filled within 2 business days for CONUS shipments and 5 business days for OCONUS shipments.

Estimated Completion Date: 30 Jun 10.

POC: [REDACTED]

Report of Audit, Analysis of Air Force Secondary Power Logistics Solution Contract, 748th Supply Chain Management Group, Hill AFB UT (D2009-D000CH-0223.000)

Recommendation C.3.

The Director, 448th Supply Chain Management Wing, should direct the Commander, 748th Supply Chain Management Group, to establish contract incentives or penalties that are sufficient to ensure required availability.

Management Comments: The Director, 448th Supply Chain Management Wing, and the 748th Supply Chain Management Group Commander concur with the audit recommendation. Contractor performance to date indicates that the SPLS contract contains sufficient incentive to ensure Honeywell compliance with stated contractual objective in regards to availability. There are safeguards in place to enforce this performance.

- 1) SPLS is a 10-year award, with 1 base year and 9 1-year option. The 748 SCMG reserves the right to unilaterally cease contractual performance via failure to exercise option, as needed under circumstances where contractor performance is considered insufficient. Viewed from this perspective, the potential total penalty to the contractor is the entire value of the contract. We feel this is sufficient motivating incentive.
- 2) DoD IG was asked to provide the established guidelines for monetary penalties in such circumstances. They indicated that there are no established guidelines. The 748 SCMG believes that current penalties are sufficient to motivate contractor performance.

Action Completed: Closed.

POC: [REDACTED]

Report of Audit, Analysis of Air Force Secondary Power Logistics Solution Contract, 748th Supply Chain Management Group, Hill AFB UT (D2009-D000CH-0223.000)

Recommendation D.1.

The Director, 448th Supply Chain Management Wing, should direct the Commander, 748th Supply Chain Management Group, to establish accurate reliability baselines from historical data and determine realistic improvements that can be obtained through negotiations with appropriate incentives and penalties.

Management Comments: The Director, 448th Supply Chain Management Wing, and the 748th Supply Chain Management Group Commander concur that a more accurate reliability baseline needs to be established. The 748 SCMG performed a revalidation effort on the data originally used. The revalidation effort utilized data across a longer time frame and provides a more accurate picture and highlights some errors in this report. Making a change to the contract baseline at this time could potentially have significant cost impact. This impact must be assessed. Also, there are no established guidelines for penalties or incentives. The 748 SCMG is of the opinion that the current incentives (Honeywell is inherently incentivized within the contract to improve reliability) and penalties are appropriate.

Estimated Completion Date: 30 Jun 10.

POC: [REDACTED]

Report of Audit, Analysis of Air Force Secondary Power Logistics Solution Contract, 748th Supply Chain Management Group, Hill AFB UT (D2009-D000CH-0223.000)

Recommendation D.2.

The Director, 448th Supply Chain Management Wing, should direct the Commander, 748th Supply Chain Management Group, to determine whether it is appropriate to fund component improvement program replacements/upgrades outside a performance based logistics arrangement and, if appropriate, determine how the Air Force will account for favorable availability, reliability, and cost impact on the Secondary Power Logistics Solution contract.

Management Comments: The Director, 448th Supply Chain Management Wing, and the 748th Supply Chain Management Group Commander concur with audit recommendation. While Honeywell is inherently incentivized to make reliability improvements under the SPLS contract, it is reasonable to expect that Honeywell will focus their efforts on those improvements that reduce depot repair costs and have a payback period within the life of the contract. For those reliability improvements that have a payback period longer than the life of the SPLS contract, the Air Force cannot expect Honeywell to make those improvements. However, some improvements may be in the best interest of the Air Force because they lower total logistics costs beyond the cost of development, acquisition, and implementation. In that case, the Air Force would possibly pursue those reliability improvements outside of the SPLS contract, most likely under the Component Improvement Program (CIP). If such a case were to occur and depending upon the actual development, acquisition, and implementation strategy employed, the performance metrics as well as contract costs may need to be modified. The Air Force would need to assure that Honeywell does not receive financial benefit for reliability improvements that were realized because of Air Force efforts outside of the SPLS contract. In terms of contract costs, the purpose of a modification would be to prevent Honeywell from receiving "free issue" assets or being paid for repairs they didn't perform if the Air Force were to fully acquire any new improved assets or modification kits (to improve existing assets) outside of the SPLS contract.

At present time this scenario does not exist, but we fully agree with this philosophy and will make appropriate adjustments in the event that such an effort is undertaken using the CIP.

Action Completed: Closed.

POC: [REDACTED]

**Report of Audit, Analysis of Air Force Secondary Power Logistics Solution Contract,
748th Supply Chain Management Group, Hill AFB UT (D2009-D000CH-0223.000)**

Recommendation D.3.

The Director, 448th Supply Chain Management Wing, should direct the Commander, 748th Supply Chain Management Group, to determine whether it is appropriate to fund component improvement program projects (to improve reliability, not safety) that are scheduled for performance-based logistics arrangements.

Management Comments: The Director, 448th Supply Chain Management Wing, and the 748th Supply Chain Management Group Commander concur with audit recommendation. Honeywell is inherently incentivized to make reliability improvements which would lower their overall costs (i.e., reduce number of Depot repair actions). However, there are improvements that wouldn't lower Honeywell's overall costs, and we don't expect them to implement those improvements. If those improvements are deemed to be in the best interest of the Air Force, then we would consider pursuing them. Each improvement, though, would be taken on a case-by-case basis and evaluated according to applicable information (i.e., SPLS contract point and the impact of the improvement). As stated in part 2, special efforts must be taken to make sure that Honeywell does not "profit" at the Air Force's expense.

At present time this scenario does not exist, but we fully agree with this philosophy and will make appropriate adjustments in the event that such an effort is undertaken using the Component Improvement Program.

Action Completed: Closed.

POC: [REDACTED]

Report of Audit, Analysis of Air Force Secondary Power Logistics Solution Contract, 748th Supply Chain Management Group, Hill AFB UT (D2009-D000CH-0223.000)

Recommendation E.1.a.

The Director, 448th Supply Chain Management Wing, should direct the Commander, 748th Supply Chain Management Group, to periodically (about 4-6 years) obtain certified cost or pricing data and renegotiate option year prices for the Secondary Power Logistics Solution contract.

Management Comments: The Director, 448th Supply Chain Management Wing, and the 748th Supply Chain Management Group Commander concur with audit recommendation. We concur with the concept of re-pricing at or about the midpoint of a 10-year agreement. This concept will be incorporated into future contracts of this nature.

Efforts to develop a suitable process to address this concern for the existing contract are currently underway. We will develop and expect to have a sound methodology in place to validate reasonableness of price prior to exercise of next option. The current contract does not contain a reopener clause which would allow such renegotiations during the period of performance to take place. Under the existing SPLS contract, the Air Force has the ability to not exercise an option if the determination is made that the cost of the contract is not deemed fair and reasonable at that point in time.

Estimated Completion Date: 30 Nov 11.

POC: [REDACTED]

Report of Audit, Analysis of Air Force Secondary Power Logistics Solution Contract, 748th Supply Chain Management Group, HIII AFB UT (D2009-D000CH-0223.000)

Recommendation E.I.b.

The Director, 448th Supply Chain Management Wing, should direct the Commander, 748th Supply Chain Management Group, to closely monitor reliability (on-wing performance) of secondary power systems depot-level repairables to determine whether the less costly on-condition maintenance philosophy is negatively impacting reliability.

Management Comments: The Director, 448th Supply Chain Management Wing, and the 748th Supply Chain Management Group Commander concur with audit recommendation. Base RTS, NRTS, and flying hours data is being collected now and will continually be evaluated on a quarterly basis to determine what (if any) impact on-condition maintenance has had upon reliability.

Estimated Completion Date: 30 Jun 10.

POC: [REDACTED]

Report of Audit, Analysis of Air Force Secondary Power Logistics Solution Contract, 748th Supply Chain Management Group, HIII AFB UT (D2009-D000CH-0223.000)

Recommendation E.2.a.

The Director, 448th Supply Chain Management Wing, should direct the Commander, 748th Supply Chain Management Group, to update the status quo calculations for F-15 secondary power systems using FY 2009 historical data to determine whether the Secondary Power Logistics Solution contract is more cost-effective than the status quo.

Management Comments: The Director, 448th Supply Chain Management Wing, and the 748th Supply Chain Management Group Commander concur with audit recommendation. BCA is undergoing rework now under the auspices of OO-ALC/FM. Updated results will be used to determine go-ahead decision on increment 2.

Estimated Completion Date: 31 Dec 2010.

POC: [REDACTED]

Report of Audit, Analysis of Air Force Secondary Power Logistics Solution Contract, 748th Supply Chain Management Group, Hill AFB UT (D2009-D000CH-0223.000)

Recommendation E.2.b.

The Director, 448th Supply Chain Management Wing, should direct the Commander, 748th Supply Chain Management Group, to ensure that the "backorder buydown" used in the status quo calculation is not greater than the specific contract requirement.

Management Comments: The Director, 448th Supply Chain Management Wing, and the 748th Supply Chain Management Group Commander concur with audit recommendation. After contract award, the BCA status quo costs will be re-calculated to match the "backorder burndown" requirements in the contract.

Estimated Completion Date: 31 Dec 10.

POC: [REDACTED]

Report of Audit, Analysis of Air Force Secondary Power Logistics Solution Contract, 748th Supply Chain Management Group, Hill AFB UT (D2009-D000CH-0223.000)

Recommendation F.1.

The Director, 448th Supply Chain Management Wing, should direct the Commander, 748th Supply Chain Management Group, to obtain a determination from the Air Force Senior Procurement Executive on whether bundling is necessary and justified for the Secondary Power Logistics Solution contract.

Management Comments: The Director, 448th Supply Chain Management Wing, and the 748th Supply Chain Management Group Commander concur with audit recommendation that proper determination for bundling must be obtained.

Non-concur with level of determination recommended. FAR 7.107(I) states that it is the Contracting Officer's responsibility to justify bundling. The Contracting Officer made a bundling determination for this contract 18 April 06. In accordance with AFFARS 5307.170-3, a determination from the Senior Procurement Executive (or delegate) is required for consolidation of requirements with a total value exceeding \$5,500,000. A determination for consolidation was signed by [REDACTED] Deputy Assistant Secretary (Contracting), on May 15, 2006 that determined the consolidation was necessary and justified.

We recognize there may be conflict between the AFFAR and other guidance; however, 748 SCMG followed proper procedure at time of justification of consolidation.

With regards to bundling, we have an ongoing internal review to determine whether appropriate determination and approvals were made.

Estimated completion date: 30 Jun 10.

POC: [REDACTED]

Defense Supply Center, Richmond, Virginia Comments



IN REPLY
REFER TO 1-3/4

DEFENSE LOGISTICS AGENCY
HEADQUARTERS
8725 JOHN J. KINGMAN ROAD
FORT BELVOIR, VIRGINIA 22060-6221

MEMORANDUM FOR DA

SUBJECT: Analysis of Air Force Secondary Power Logistics Solution Contract Response

I have reviewed DSCR's draft response to subject audit and concur with their comments.

If you have any questions, please contact my POC, [REDACTED]
Commercial [REDACTED]

JOHN E. HALL
Executive Director, Operations & Sustainment

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DEFENSE LOGISTICS AGENCY
DEFENSE SUPPLY CENTER RICHMOND
8000 JEFFERSON DAVIS HIGHWAY
RICHMOND, VIRGINIA 23297-5100

IN REPLY
REFER TO DSCR-DI

FEB 11 2010

MEMORANDUM FOR DEPARTMENT OF DEFENSE, OFFICE OF INSPECTOR GENERAL, ATTN: [REDACTED]

SUBJECT: Analysis of Air Force Secondary Power Logistics Solution Contract (Project No. D2009-D000C11-0221.000)

As requested in DoDIG memorandum, dated January 15, 2010, subject as above, I have reviewed and concur with Recommendation A.2. of subject draft analysis. The following describes what actions have been taken and planned to be taken to accomplish what the DoDIG is recommending:

DSCR met with the Air Force (AF) in mid December and January pertaining to Secondary Power Logistics Solution (SPLS) contract issues.

SPLS Phase 1, Increment 2, F-15 issues were discussed. Increment 1 is now projected to be awarded July 10, 2010. Delay is caused by an AF internal Air Force Program Executive Officer and a separate Defense Contract Audit Agency audit. SPLS collaboration demands have been appropriately dialed down by DLA.

SPLS Phase 1, Increment 1, C-130 was also addressed. The drawdown national stock numbers identified and associated dollar values are being negotiated. The 10-year drawdown market share dollar value is \$25M; however, since 2 years have passed since contract award (August 2007) the 8-year drawdown value is now \$19M. AF is reviewing the market share data. AF is now asking Defense Logistics Agency (DLA) to consider foreign military sales customers as a "Relief Valve" for potentially a couple million dollars so they (Honeywell) do not have to drawdown the whole \$19M. Also, part of AF's concern is that in the last 2 years Honeywell has awarded contracts to their suppliers and that Honeywell has over procured.

DLA will follow the same methodology adopted in Increment 2 to utilize existing inventory. DLA will insist that AF drawdown a substantial amount if not all of the \$19M for Increment 1.

Should you have any questions you may contact [REDACTED] Director, Internal Audit, DSCR-DI, [REDACTED] Defense Switched Network [REDACTED]


KATHY CUTLER
Deputy Commander

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Inspector General
Department of Defense



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